



**STATE OF COLORADO**  
**STATEWIDE SINGLE AUDIT**  
**FISCAL YEAR ENDED JUNE 30, 1999**

**Authority, Purpose, and Scope**

This audit was conducted under the authority of Section 2-3-103 et seq., C.R.S., which authorizes the Office of the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The audit was conducted in accordance with generally accepted auditing standards and the financial and compliance standards contained in the *Government Auditing Standards* issued by the U.S. General Accounting Office. We performed our audit work during the period January 1999 through November 1999.

The purpose of this audit was to:

- Express an opinion on the State's General Purpose Financial Statements for the fiscal year ended June 30, 1999.
- Express an opinion on the State's Schedule of Expenditures of Federal Awards for the fiscal year ended June 30, 1999.
- Review internal accounting and administrative control procedures as required by generally accepted auditing standards.
- Evaluate compliance with applicable state and federal laws, rules, and regulations.
- Evaluate progress in implementing prior audit recommendations.

We expressed an unqualified opinion on the State's General Purpose Financial Statements and the State's Schedule of Expenditures of Federal Awards for the fiscal year ended June 30, 1999. They are presented in the Financial Statement section of this report.

**Current Year Findings and Recommendations**

This report presents the results of the statewide financial and compliance audit for Fiscal Year 1999. The report may not include all the findings and recommendations related to audits performed of state departments, institutions, and agencies which are issued under separate report covers. However, in accordance with the Single Audit Act, this report does include all findings and questioned costs

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related to federal awards which came to our attention through either the statewide audit or separate audits. The following is a highlight of the more significant findings included in this report arranged by subject matter. Please refer to the Recommendation Locator in the next section for the recommendations, responses, implementation dates, and location of the full text of the findings, recommendations, and agency responses for each agency.

## **Federal Grants**

The State received about \$3.2 billion in federal grants in Fiscal Year 1999. We noted areas for improvements relating to the administration of federal money as follows:

- **Health Care Policy and Financing (Medicaid).** We found problems in the following areas:
  - R Failure to adequately monitor prescription drugs that are not picked up by the client within 14 days. Medicaid is entitled to a credit when this occurs. We estimate that between \$3 and \$9 million in prescription refunds should have been credited to Medicaid during the past 6 years.
  - R Backlogs of in-depth audits of nursing facility billing practices and resident personal accounts. We estimate that if all nursing facilities received in-depth audits systematically, the State would recover about \$2 million in Medicaid funds and \$50,000 in resident funds annually.
  - R Lack of analysis of basic billing relationships. The Department has not systematically reviewed claims for questionable billings such as “out-of-hospital” services provided while the recipient was hospitalized, services provided on holidays, or services provided after the recipient had died.
  - R Unauthorized transportation services. Procedures require counties to authorize and pay for certain transportation services in advance and then seek reimbursement from Medicaid. At least 3 metro area taxi companies and 33 mobility and wheelchair van companies are billing Medicaid directly. By paying these claims, Medicaid is inappropriately bypassing the county authorization process, making these services vulnerable to fraud and abuse.
  - R Weak oversight of (1) claims paid on behalf of recipients eligible for both Medicaid and Medicare; (2) mental health and developmental disabilities services managed by the Department of Human Services; and (3) county functions such as recording of recipient date-of-death. These are high risk areas which, without appropriate oversight, may result in the State paying for services that are not necessary or that could be provided more cost effectively.
  - R Overspending of the quarterly available Medicaid funding for the period ending June 30, 1999. Because the Department did not identify this, about \$54.9 million in State funds were

utilized until federal funding was requested and received at an approximate interest cost to the State of \$537,500.

- R** Errors found in our test of 217 Medicaid expenditures included 10 instances of beneficiary eligibility errors with a value of \$5,256 (federal share \$2,659), 131 instances of provider eligibility errors with a value of \$499,359 (federal share \$252,626), and 54 instances of expenditures totaling \$11,674 (federal share) that were not allowable under criteria for the program.
- **Health Care Policy and Financing (Children’s Health Insurance Program).** The Children’s Health Insurance Program is the State’s subsidized insurance program for children in low-income families that exceed Medicaid income limitations. Federal law provides for federal matching funds for “non-benefit activities” such as administration and outreach up to 10 percent of total program expenditures. The federal Health Care Financing Administration has allowed states to make draws of federal funds in excess of this limit in an effort to help states fund start-up costs of the program. The Department did not record a \$1.8 million liability for this excess draw in the State’s accounting records.
  - **School of Mines.** The School has several administrative problems that could ultimately jeopardize the School’s federal funding. These include (1) inadequately monitoring grants passed through to subrecipients; (2) untimely close out of grants (within 90 days after project completion as required by federal regulations); (3) lack of sufficient information to determine that the School met federal matching requirements; and (4) failure to report non-cash assistance, such as equipment and computers, received as part of a federal grant on its Schedule of Federal Assistance.
  - **Human Services.** The Department expended approximately \$18.4 million to provide financial assistance to adoptive families to help defray the costs related to adopting children with special needs. This program is administered at the county level, with departmental oversight. The Department’s monitoring process for reviewing subsidies is not documented, is not systematic, does not provide for feedback to the county, and does not require a corrective action plan from the county, if applicable.
  - **Colorado Student Loan.** In a test of 61 loans we found that seven were paid by the borrower, but the lender did not notify the Division of such. Lender reporting is a national problem and the exercise of due diligence by the Division is necessary in helping to obtain accurate information.

## **Financial Reporting**

The State Controller's Office minimizes the risk of inaccurate financial reporting by establishing standard policies and procedures. We found that the Controller's Office and some state agencies could improve financial reporting as follows:

- **Controller's Office.** We found errors in the TABOR Revenue Schedule totaling \$2.8 million and the Cash Funds Uncommitted Reserves Report totaling \$778,000 (both corrected before publication). Additional analytical review procedures could improve the accuracy of the reporting by detecting potential errors early in the process. We also found, among other things, inconsistencies between the State's cash flow statements and those same statements found in stand-alone audit reports.
- **Human Services.** The Grand Junction Regional Center is responsible for the care of developmentally disabled individuals. We found that staff do not use an automated system for tracking patient charges. In addition, revenue reported by staff was \$687,051 less than revenue recorded on the State's accounting system. Reconciliations are important as a means for identifying errors and preventing the misuse of funds.
- **Health Care Policy and Financing.** Indirect costs are those costs that benefit more than one program. Federal regulations require the Department to have an approved cost allocation plan in place to recover indirect costs from the federal awards. In Fiscal Year 1999 the Department recovered \$2,493,611 in federal funds for indirect costs under Medicaid and Medicaid-related programs without having a federally approved cost allocation plan. Accordingly, the entire amount of \$2,493,611 is questioned.
- **Labor and Employment.** The revenue reported in the Department's schedule of federal assistance was about \$206,811 less than the associated revenue balance recorded on the State's accounting system. Reconciliation is important to eliminate differences and properly record and report federal revenue.
- **State.** In prior audits we recommended that the Secretary of State's Office implement various reconciliations. We found that the Office has adequately implemented an accounts payable reconciliation, but needs to continue to address reconciliations of fixed assets and payroll. These reconciliations ensure that the Office's assets are safeguarded and that pay rate transactions are approved and accurate.

- **Human Services.** Manual adjustments are made to payroll for leave taken without pay or for excess hours worked. In a review of three payroll reports we found that one employee was overpaid \$437.50. The error was subsequently corrected. A review process should be implemented due to the high risk of errors with this type of transaction.

## Information Systems

Information Systems are an integral part of the operations of state government. We found areas where information system issues need to be addressed:

- **Health Care Policy and Financing.** In Fiscal Year 1999 the Medicaid Management Information System processed over \$1.7 billion in Medicaid payments. Although the Department was able to provide documentation of system tests performed by the new fiscal agent for Medicaid, the Department has not performed and documented the on-site risk analysis and system security review of this system as required by federal regulations.
- **Personnel.** Back-up tapes of vital information within Central Services are not stored in an off-site location. Back-ups tapes are essential to recreate information in the case of a disaster, tampering, or malfunction of the collection system.
- **Public Health and Environment.** Security standards for applications and software vary within the Department. It is important that access to and use of technology is controlled to prevent misuse. We also found that the Department needs to better manage new system implementations and develop subsequent reviews for applications developed by third parties.
- **Transportation.** Employees may purchase construction materials using department-issued credit cards. The Department developed a database to assist in reconciling charges, but it was not thoroughly tested and is not secured so that access to card numbers is limited.

## Recommendation Locator

The attached Recommendation Locator is arranged by department. Additional columns have been added to the Recommendation Locator to provide the information necessary to meet the Single Audit reporting requirements. The CFDA No./Compliance Requirement/Federal Entity column indicates the federal program, type of compliance requirement (including reference letter), and federal agency the finding relates to. The contact for the Corrective Action Plan column notes the designated grant contact person at the state agency. For those findings that do not relate to the Single Audit Act, the CFDA No./Compliance Requirement/Federal Entity column above will not apply and will be marked similarly.

## Summary of Progress in Implementing Prior Year Recommendations

This report includes an assessment of the disposition of prior audit recommendations reported in both the Statewide Single Audit Reports and the Statewide Financial and Compliance Audit Reports for Fiscal Years 1994 through 1998.

| Statewide Single Audit Recommendations for Fiscal Year |           |           |          |          |          |          |
|--|-----------|-----------|----------|----------|----------|----------|
|  | Total     | 1998      | 1997     | 1996     | 1995     | 1994     |
| Implemented  | 17        | 10        | 5        | -        | 1        | 1        |
| Partially Implemented                                  | 7         | 5         | 2        | -        | -        | -        |
| Deferred   | 6         | 3         | 2        | -        | -        | 1        |
| No Longer Applicable                                   | 1         | -         | -        | -        | 1        | -        |
| <b>Total *</b>   | <b>31</b> | <b>18</b> | <b>9</b> | <b>-</b> | <b>2</b> | <b>2</b> |

| Statewide Financial and Compliance Recommendations for Fiscal Year |           |           |           |          |          |          |
|--|-----------|-----------|-----------|----------|----------|----------|
|  | Total     | 1998      | 1997      | 1996     | 1995     | 1994     |
| Implemented  | 29        | 20        | 6         | 2        | -        | 1        |
| Partially Implemented  | 13        | 10        | 2         | 1        | -        | -        |
| Not Implemented  | 1         | 1         | -         | -        | -        | -        |
| Deferred   | 16        | 10        | 5         | 1        | -        | -        |
| No Longer Applicable   | 1         | -         | -         | -        | 1        | -        |
| <b>Total *</b>   | <b>60</b> | <b>41</b> | <b>13</b> | <b>4</b> | <b>1</b> | <b>1</b> |

\* The prior year comments reported above in the Statewide Financial and Compliance Reports are duplicated in the Statewide Single Audit section if they relate to federal funds.